

Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 IO-14 FEA-02 AGR-20 CEA-02

CIAE-00 COME-00 DODE-00 FRB-02 H-03 INR-10 INT-08

L-03 LAB-06 NSAE-00 NSC-07 PA-04 RSC-01 AID-20

CIEP-02 SS-20 STR-08 TAR-02 TRSE-00 USIA-15 PRS-01

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E.O. 11652: N/A

TAGS: EAGR ETRD

SUBJ: REACTION TO HOUSE DEFEAT OF BILL TO EXTEND US SUGAR ACT

REF: STATE 123690

1. THERE HAS BEEN CONSIDERABLE COVERAGE IN LOCAL PRESS OF THE HOUSE VOTE DEFEATING BILL TO EXTEND US SUGAR LEGISLATION FOR 5 YEARS. MEXICO IS MAJOR OFFSHORE SUPPLIER OF SUGAR TO THE US MARKET WITH ALL OF ITS SUGAR EXPORTS GOING TO US THUS MAKING US SUGAR POLICY DEVELOPMENTS OF LOCAL INTEREST. MOST OF PRESS COVERAGE HAS BEEN STRAIGHT FACTUAL REPORTING ON BACKGROUND OF US SUGAR PROGRAM AND SIGNIFICANCE OF US AS MARKET FOR MEXICAN AND L.A. SUGAR EXPORTS. THERE HAS BEEN NO SIGNIFICANT CRITICISM OF HOUSE ACTION ALTHOUGH REPORTS HAVE EMPHASIZED THAT ELIMINATION OF US QUOTA SYSTEM WILL BRING MUCH UNCERTAINTY TO SUGAR SECTOR THROUGHOUT HEMISPHERE PARTICULARLY IN LONGER RUN. THERE HAVE BEEN NO PUBLIC STATEMENTS MADE BY GOM OFFICIALS ON THIS SUBJECT.

2. IN PRIVATE CONVERSATIONS WITH KEY GOM OFFICIALS INVOLVED IN MEXICO'S SUGAR INDUSTRY, THEY DO NOT APPEAR TO BE AS CONCERNED

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ABOUT ELIMINATION OF US SUGAR QUOTA AS ONE WOULD EXPECT. THEY ARE

QUICK TO POINT OUT THAT GIVEN A CHOICE THEY WOULD PREFER AN EXTENSION OF THE PRESENT US SUGAR QUOTA SYSTEM SINCE THIS PROVIDES MEXICO WITH A PREDICTABLE MARKET AT GOOD PRICES. THIS WAS ESSENTIALLY THE VIEW PRESENTED IN MEXICO'S STATEMENT TO THE POAGE COMMITTEE DURING EARLIER HEARINGS. HOWEVER, THE POSSIBILITY THAT US SUGAR LEGISLATION WILL NOT BE EXTENDED DOES NOT SEEM TO OVERLY CONCERN THESE OFFICIALS AS THEY BELIEVE SUGAR PRICES WILL REMAIN FIRM IN THE NEAR FUTURE REGARDLESS OF US ACTION ON SUGAR QUOTAS. THESE OFFICIALS POINT OUT THAT THE OUTLOOK IS FOR A CONTINUED TIGHT WORLD SUGAR SUPPLY SITUATION AND THAT IT WILL TAKE SOME TIME FOR PRODUCTION TO CATCH UP WITH RAPIDLY EXPANDING WORLD DEMAND. IT IS GENERALLY FELT HERE THAT THE CURRENT WORLD PRICE SITUATION WILL CONTINUE FOR THREE TO FIVE YEARS. IN THE LONGER RUN MEXICAN OFFICIALS FEEL THAT DUE TO MEXICO'S CLOSE GEOGRAPHIC PROXIMITY TO THE US THERE WILL BE NO DIFFICULTY IN MAINTAINING MEXICO'S SHARE OF THE US MARKET. DUE TO THIS PROXIMITY MEXICO HAS MORE FLEXIBILITY IN SHIPPING SUGAR TO THE US THAN OTHER WORLD SUPPLIERS AND SHIPPING RATES ARE LOWER. IT IS ALSO POINTED OUT THAT MEXICO HAS AN EXCELLENT REPUTATION IN THE US FOR COMPLYING WITH ITS SUGAR EXPORT COMMITMENTS WHICH WILL HOLD THEM IN GOOD STEAD.

3. COMMENT. BASED ON THIS INITIAL REACTION IT WOULD APPEAR THAT THE TERMINATION OF THE US SUGAR ACT WOULD NOT RESULT IN A MAJOR ISSUE BETWEEN MEXICO AND THE US. THE CURRENT HIGH PRICES FOR WORLD MARKET SUGAR SEEM TO HAVE CUSHIONED THE EFFECT OF THE HOUSE ACTION AND ALTHOUGH THE MEXICANS WOULD PREFER A CONTINUATION OF THE CURRENT SUGAR QUOTA SYSTEM THEY APPEAR TO BE WILLING TO ACCEPT ITS TERMINATION DESPITE THE UNCERTAINTIES THIS WILL CREATE. IT SHOULD ALSO BE KEPT IN MIND THAT SUGAR EXPORTS ARE NOT AS CRITICAL TO THE MEXICAN ECONOMY AS IN THE CASE WITH OTHER LATIN AMERICAN COUNTRIES. MEXICO CURRENTLY PRODUCES ABOUT 2.9 MILLION MT OF SUGAR OF WHICH 719,000 OR 25 PERCENT IS EXPORTED. WITH DOMESTIC CONSUMPTION INCREASING AT AN ANNUAL RATE OF ABOUT 5 PERCENT DUE TO EXPANDING POPULATION AND RISING INCOMES OVER THE LONGER PULL MEXICO WILL PROBABLY HAVE DIFFICULTY KEEPING EXPORTS AT THEIR PRESENT LEVEL SO THE PRESSURES TO EXPORT WILL NOT BE AS GREAT AS MAY BE THE CASE FOR OTHER COUNTRIES.

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